

US Trade Data Distorted, But Show Econ Slump – Official

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WASHINGTON (Dow Jones)-- The September trade figures were distorted by the one-time effect of insurance claims after the Sept. 11 terrorist attacks, but the numbers continue to reflect an economy that is losing altitude, said U.S. Commerce Undersecretary for Economic Affairs Kathleen Cooper.

"The one monthly number is difficult to interpret, but the trend is not," Cooper told Dow Jones Newswires.

The trade gap narrowed a record 31% in September to \$18.69 billion - its lowest level since March, 1999 - from \$27.11 billion in August. Imports plummeted 14.0% to \$95.99 billion, led by an \$11 billion drop in insurance imports, and exports plunged 8.5% to \$77.29 billion.

Economists have said that excluding the one-time adjustment for post-Sept. 11 insurance claims, which resulted in lowering service imports, the trade gap would have widened to nearly \$30 billion.

While Cooper wouldn't speculate on how large the deficit may have been excluding the special factor of the insurance payments, she said the trade numbers show the economy is struggling.

The Sept. 11 impact "make these numbers difficult to sort through, but the long-term trends are similar to what we've seen over the past few months," Cooper said.

"Exports are slowing down, in fact they are down now versus a year ago. Imports are down now from a year ago. That shows a weakening economy and we need to get the economy moving again," she said.

Echoing recent statements from administration officials, Cooper said the economy is likely to resume growing in early 2002.

The trade deficit has been narrowing since hitting its recent peak of \$34.51 billion a year ago, reflecting falling imports and exports amid softer U.S. and global demand.

Economists have predicted today's trade numbers will subtract an additional 0.5% from third-quarter gross domestic product, which was originally reported contracting 0.4%. Cooper declined to comment on the implications of the trade report for third-quarter growth.

As for what the record 7.1% October retail sales jump suggests for consumer demand going forward, Cooper said spending in the near term is not likely to continue "to the same degree."

"Nevertheless, consumers were exhibiting more confidence than I might have expected for October," she said. "It's an encouraging sign for the fourth quarter," she added.

Economists have said the eye-popping retail sales figures are unlikely to keep the economy from contracting again in the fourth quarter, but will keep the economy from being weaker than it otherwise would be that quarter.

The 7.1% retail sales jump was fueled primarily by the 0% auto financing incentives automakers introduced in October. Excluding auto sales, retail sales were up a more modest 1.0% last month.

Cooper pointed out that historically when there are special incentives such as the current one for 0% financing, "the effect tends to wear off over time even as they are still in place."

The stimulative effect of the 0% financing is likely to taper off in November and December, she said.

"We'll still see some spending encouragement from it, but it won't be quite so strong," Cooper added.

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